A. E. MCKENZIE CO. LTD.

Auditor's Report and Consolidated Financial Statements
for the year ended October 31, 1983

PROVINCE OF MANITOBA
PROVINCIAL AUDITOR

MANITOBA

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PROVINCIAL AUDITOR

AUDITOR'S REPORT

TO THE SHAREHOLDER

A. E. MCKENZIE CO. LTD.

I have examined the consolidated balance sheet of A. E. McKenzie Co. Ltd. as at 31 October 1983 and the consolidated statements of operations and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these consolidated financial statements present fairly the financial position of the Company as at 31 October 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes described in note 2, on a basis consistent with that of the preceding year.

The financial statements for the preceding fiscal year were reported on by other auditors.

W. K. Ziprick, C.A.,
Provincial Auditor.

Winnipeg, Manitoba.
8 December 1983

A. E. MCKENZIE CO. LTD.

CONSOLIDATED BALANCE SHEET
AS AT 31 OCTOBER 1983

	1983	1982
ASSETS		
CURRENT		
Cash	$ 2,745	$ 381,908
Accounts receivable	1,402,350	1,363,192
Inventory, note 1	4,972,151	5,138,769
Prepaid expenses	93,256	177,270
	6,470,502	7,061,139
INVESTMENT, note 3	120,000	-
FIXED ASSETS, notes 1 and 4	1,052,205	857,453
OTHER ASSETS, notes 1 and 5	653,356	556,298
	$ 8,296,063	$ 8,474,890
LIABILITIES		
CURRENT		
Bank loans, note 6	$ 418,287	$ 570,955
Accounts payable and accrued	3,219,886	2,143,016
Current portion of long term debt	483,336	-
	4,121,509	2,713,971
LONG TERM DEBT, note 7	7,112,555	7,436,391
	11,234,064	10,150,362
SHAREHOLDERS' EQUITY		
SHARE CAPITAL, note 8	5,114,500	5,114,500
DEFICIT	(8,052,501)	(6,789,972)
	(2,938,001)	(1,675,472)
	$ 8,296,063	$ 8,474,890

COMMITMENTS, note 9
ECONOMIC DEPENDENCE, note 10
RELATED PARTY TRANSACTIONS, note 11

Approved on behalf of the Board

Original signed by -

J. A. Petrie Director

A. I. Cristall Director

A. E. MCKENZIE CO. LTD.

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED 31 OCTOBER 1983

	1983	1982
SALES	$ 15,645,646	$ 12,943,993
COST OF SALES	9,151,141	6,750,396
GROSS PROFIT	6,494,505	6,193,597
EXPENSES		
Selling	5,399,202	4,306,712
Administration	1,240,857	979,486
	6,640,059	5,286,198
PROFIT (LOSS) BEFORE INTEREST AND OTHER ITEMS	(145,554)	907,399
OTHER INCOME	68,247	25,284
	(77,307)	932,683
INTEREST	1,135,171	1,926,349
LOSS ON DISPOSAL OF FIXED ASSETS	1,051	-
INVESTMENT WRITE DOWN, note 3	49,000	-
	1,185,222	1,926,349
NET PROFIT (LOSS) FOR THE YEAR	(1,262,529)	(993,666)
DEFICIT, BEGINNING OF YEAR		
As previously stated	(6,789,972)	(4,229,917)
Prior period adjustment, note 2	-	(1,566,389)
As restated	(6,789,972)	(5,796,306)
DEFICIT, END OF YEAR	$ (8,052,501)	$ (6,789,972)

A. E. MCKENZIE CO. LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED 31 OCTOBER 1983

	1983	1982
SOURCE OF FUNDS		
Proceeds from disposal of fixed assets	$ 10,144	$ 1,280
Debenture	-	7,000,000
Advances on issuance of preferred shares	-	5,000,000
Mortgage on residence	34,500	-
Proceeds from purchase agreements	150,000	436,391
	194,644	12,437,671
USE OF FUNDS		
Operations		
Net loss for the year	1,262,529	993,666
Less items not involving funds		
Depreciation	(279,939)	(248,113)
Amortization	(199,980)	(132,538)
Gain (loss) on disposal of fixed assets	(1,050)	1,089
	781,560	614,104
Purchase of fixed assets	485,886	375,784
Design and computer development costs	146,937	352,202
Purchase of goodwill	150,100	47,488
Repayment of long term debt	25,000	-
Reclassification of long term debt	483,336	-
Investment in residence	120,000	-
	2,192,819	1,389,578
INCREASE (DECREASE) IN WORKING CAPITAL	(1,998,175)	11,048,093
Working capital (deficiency), beginning of year	4,347,168	(6,700,925)
WORKING CAPITAL, END OF YEAR	$ 2,348,993	$ 4,347,168
Represented by		
Current assets	$ 6,470,502	$ 7,061,139
Current liabilities	4,121,509	2,713,971
	$ 2,348,993	$ 4,347,168

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies of the Company:

(a) Inventory

Inventory is valued at the lower of cost or net realizable value. Cost of manufactured goods and work in process includes material, labor and plant overhead. Cost of finished packets is determined at average cost by variety. Cost for raw materials is determined at laid-down cost by specific item. Inventory for packaging and shipping materials is at laid-down cost on a first-in first-out basis.

(b) Depreciation

Depreciation of fixed assets is recorded on the straight line basis using the following rates:

Buildings	-	2%
Building renovations	-	10%
Equipment	-	10%
Leasehold improvements	-	Term of lease
Display stands and trays	-	20%

(c) Other Assets

Computer development costs are amortized on a straight line basis over five years.

Design development costs associated with new products are amortized on a straight line basis over five years.

Goodwill is amortized on a straight line basis over ten years.

(d) Accounts Consolidated

These financial statements consolidate the accounts of A. E. McKenzie Co. Ltd. and the following wholly owned subsidiaries:

Steele Briggs Ltd.
McFayden Seeds Ltd.
Canada Seeds Ltd.
Pike & Co. Ltd.

Pike & Co. Ltd. is the only subsidiary which operated during the year. The 1982 balance sheet figures were changed to consolidate the accounts of Pike & Co. Ltd.

2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES, AND PRIOR PERIOD ADJUSTMENTS

In 1982 changes were made in accounting policies related to metal display stands and catalogue costs and in the estimated benefit period for design development costs. In 1983 the 1982 decisions were reversed, thereby reverting to the previous policies, set out in note 1, and treating catalogue costs as expenses when incurred. These changes were applied retroactively and had the following effect:

Increase in fixed assets	$ 252,447
Decrease in inventory	342,534
Decrease in other assets	218,524
Increase in deficit at 31 October 1981	125,302
Increase in loss for 1982	183,309

During the year the company changed its method of determining the cost of finished goods, specifically the amount of overhead to be included in inventory. Formerly the policy was to include not more than one year's overhead in inventory; now overhead is defined as manufacturing expenses and indirect labor and is allocated to inventory in proportion to the direct labor contained therein. This change was applied retroactively and had the following effect:

Decrease in inventory	$ 824,498
Increase in deficit as at 31 October 1981	744,991
Increase in loss for 1982	79,507

At 31 October 1982 there were certain items included in inventory which were later determined to be obsolete, cost of sales, administration or selling expenses; correction of these resulted in the following:

Decrease in inventory	$ 1,105,943
Increase in deficit at 31 October 1981	696,096
Increase in loss for 1982	409,847

The net effect of the above adjustments and others totalling $53,036 is as follows:

Increase in deficit at 31 October 1981	$ 1,566,389
Increase in loss for 1982	725,699

The comparative figures have been restated to give effect to policy changes and other adjustments.

3. INVESTMENT

During the year the company purchased the Calgary residence of an employee who was transferred to another branch. The cost was $169,000 but the estimated net realizable value at 31 October 1983 was $120,000 and the write down of $49,000 was charged to operations.

4. FIXED ASSETS

	1983		1982	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 22,539	$ -	$ 22,539	$ -
Buildings	1,349,773	915,179	1,135,166	840,629
Equipment	1,404,963	1,036,625	1,217,581	981,487
Leasehold improvements	135,822	93,880	89,612	37,776
Trays	56,393	19,836	56,393	8,558
Display stands	314,790	166,555	440,087	235,475
	3,284,280	2,232,075	2,961,378	2,103,925
Cost less accumulated depreciation	$ 1,052,205		$ 857,453	

5. OTHER ASSETS

	1983		1982	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Design development	$ 730,216	$ 289,848	$ 734,052	$ 269,552
Computer development	57,781	22,633	55,386	11,076
Goodwill	197,590	19,750	47,788	-
	985,587	332,231	837,226	280,628
Cost less accumulated amortization	$ 653,356		$ 556,598	

6. BANK LOANS

The bank loans are secured by inventory, accounts receivable and fire insurance.

7. LONG TERM DEBT

	1983	1982
Demand debenture, repayable in annual instalments of $350,000 plus interest quarterly at a floating rate equivalent to the long term borrowing rate of the Province of Manitoba, maturing 2003, see below	$ 7,000,000	$ 7,000,000
Purchase agreement, repayable in annual instalments of $87,278 plus interest at the Toronto-Dominion Bank prime lending rate, maturing 1988	436,391	436,391
Promissory note, repayable in semi-annual instalments of $30,000 including interest at the rate of 10.95%, maturing 1986	125,000	-
10% residential mortgage, repayable $349 monthly including interest, maturing 1999	34,500	-
	7,595,891	7,436,391
Current portion	483,336	-
	$ 7,112,555	$ 7,436,391

The demand debenture held by the Manitoba Development Corporation is secured by a fixed and floating charge on all assets of the Company subject to prior security held by the bank.

Principal payments due in the next five years are as follows:

1984	$459,058
1985	466,585
1986	442,580
1987	414,280
1988	414,300

8. SHARE CAPITAL

Authorized

2,000	Class A common shares, maximum consideration $200,000	
5,000,000	Class B common shares, maximum consideration $5,000,000	
5,000,000	Preferred shares, non-voting, cumulative dividends at the rate of 6¢ per share per annum, redeemable, maximum consideration $5,000,000	

Issued

1,145	Class A common shares	$ 114,500
5,000,000	Preferred shares	5,000,000
		$ 5,114,500

During the year the Company's charter was amended to increase its authorized share capital from $200,000 common shares to $ 10,200,000 as above. Preferred shares for $5,000,000 were issued to the Manitoba Development Corporation which holds an option to exchange the preferred shares for Class B common shares, exercizable on 29 October 1984 or any time thereafter.

The preferred shares are redeemable at $1 per share together with any dividends accrued thereon and unpaid. Dividends in arrears at 31 October 1983 were $300,000.

All of the issued common shares are owned by the Province of Manitoba.

9. COMMITMENTS

The company leases real estate in six provinces as well as computer hardware and software, automotive and office equipment. The total commitments for 1984 on these leases is approximately $400,000.

10. ECONOMIC DEPENDENCE

The Company is economically dependent on the Manitoba Development Corporation, an agency of the Manitoba Government.

11. RELATED PARTY TRANSACTIONS

During the year a special audit was conducted by the Provincial Auditor into transactions between A. E. McKenzie Co. Ltd. and companies in which three senior officers were alleged to have had a beneficial interest; subsequently the three officers were discharged. The Company intends to take action to recover some amounts from the three officers but the amounts have not yet been determined.

Three companies involved were Vantage Western Data Ltd., a company leasing a computer to McKenzie Seeds, Agassiz Packaging Ltd., a company doing merchandising business with McKenzie Seeds, and Ten Eleven Ltd., a company which leased two buildings to McKenzie Seeds.

12. LEGISLATIVE COMMITTEE INFORMATION

The following information is supplied in compliance with a request of the Standing Committee on Economic Development of the Manitoba Legislature dated 26 May 1983:

The annual borrowing cost to the government for the investment of $5,000,000 in preferred shares at the average 20 year long term borrowing rate by the Province of 12.59% for the year ended 31 October 1983	$ 629,500
Preferred shares dividend in arrears	300,000
Amount in excess of the dividend	$ 329,500